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STATE FOR AF/E, AF/RSA AND A/S CARSON

E.O. 12958: DECL: 2020/01/26
TAGS: PREL PGOV SO SU ECON EFIN EAID
SUBJECT: SOMALIA - TFG SIGNS DEAL FOR NEW CURRENCY

CLASSIFIED BY: Robert Patterson, Counselor for Somalia Affairs, State Department, Somalia Unit; REASON: 1.4(B), (D)

¶1. (C) Summary: On January 11 the Transitional Federal Government Finance Minister Sharif Hassan Sheikh Aden and his Sudanese counterpart signed an agreement for Sudan to print five trillion new Somali shillings. Sudan will fund the printing, reportedly costing \$17 million dollars, according to the Prime Minister. The deal's critics predict that the proper economic planning hasn't been done, and if distributed, the new money will at best cause inflation, and at worst be rejected by the business community and regional governments, some of which are under al-Shabaab's control. The Prime Minister says that the criticism is premature, as introduction of the currency is almost a year away. An advisor to the finance minister hoped that the new money would be introduced at a time when the TFG had extended its control over more of Somalia, and sensitized the currency exchange with the business community and regional governments, such as Puntland. Somalia's Central Bank Governor Bashir Issa Ali told us this is yet another example of the government circumventing proper procedures and authorities, and he is resigning rather than see the Somali system of public administration further weakened. Whether or not the agreement is a good one, the TFG has left itself open to criticism that it has not consulted with government and economic stakeholders, and its international backers. Furthermore, critics of the finance minister have seized on the issue to renew (unsubstantiated) charges he is enriching himself in the course of his official duties. End Summary.

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Figure 1: The largest Somali Shilling denomination is the 1,000 shilling note, worth approximately \$.03.

¶2. (C) Prime Minister Omar Sharuarke confirmed that on January 11 Minister of Finance Sharif Hassan and his Sudanese counterpart signed an agreement in Khartoum for a Sudanese parastatal company to design and print 5 trillion new Somali shillings (Note: \$1.00 = 31,500 Somali Shillings.). According to the Prime Minister, the Sudanese are financing the \$17 million cost of the printing. The Sudanese printing company produces high quality currency, and works with Crane Currency, a banknote paper supplier to the U.S. Mint, the PM said. Multiple denominations would be printed. The Prime Minister told us that the currency's delivery was at least seven months away.

¶3. (C) Central Bank Governor Bashir Issa Ali has resigned in part over the deal. He told us the government circumvented proper procedures for the printing of money, including consulting the Central Bank Board of Governors, and Parliament. Bashir Ali warned of inflation and deepening poverty if the money wasn't introduced

properly. Al-Shabaab would likely prevent its distribution, as Mohammed Farah Aideed had prevented a currency infusion by then-president Ali Mahdi Muhammad, according to Ali. The government had not yet consulted with the business community, or the regions, including Puntland, whose cooperation would be essential. Consulting on and introducing a newly-designed currency could have built national unity, an opportunity the government has now squandered, said Ali. Finally, he said Minister Sharif Hassan almost certainly received a kickback for signing the deal. (Note: Ali conceded he had no proof of this. End Note.)

¶4. (SBU) Other critics of the deal echoed central banker Bashir Ali's concerns. The World Bank's Somalia country manager told the government in an open letter that it has not done the preparatory work needed to introduce a new currency, and that the currency could further damage the country's economy. The Puntland government publicly excoriated the TFG for not consulting with it, and for risking destabilizing the economy.

¶5. (SBU) The government defended the deal. Everyone we spoke with agreed that the Somali bank notes needed replacing. Many of the Somali shillings in circulation are counterfeit, and most are in tatters. The Prime Minister noted that Puntland, as well as

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insurgents and criminals in Mogadishu's Bakara market, print Somali currency. Also, the largest denomination is the 1,000 shilling note, preventing large transactions from being conducted in shillings (Note: most business deals are done in U.S. dollars. End Note.). Bashir Ali himself conceded that the free printing of a modern currency would be a windfall for the government. The Prime Minister dismissed rumors that Finance Minister Sharif Hassan had made money on the deal, and expressed disappointment at Bashir Ali's comments.

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Figure 2: Traders struggle to do large business deals with the weak Somali Shilling.

¶6. (C) A contact in the finance minister's office noted that the cabinet had approved the deal. He said the government wouldn't take possession of the bills until later this year. By that time the government anticipated controlling Mogadishu and parts of south central Somalia, and will have prepared the business community and Puntland to receive the new currency. The plan was then responsibly to buy back old bills with the new money. The Prime Minister told us that "Puntland will come around," and that he's already begun consultations with Puntland elders.

¶7. (C) Comment: Even if undertaken with good intentions, the TFG hasn't laid the necessary groundwork with the World Bank and Puntland, whose reactions to news of the agreement with Sudan seem overblown, given that the TFG has no plan to introduce the currency immediately. The government's intention is to gain territory, conduct the required economic planning, and sensitize the country's business community and regions in the meantime. End comment.
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